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RR RUEHAO
DE RUEHCV #3617/01 3471944
ZNR UUUUU ZZH
R 131944Z DEC 06
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 7296
INFO RUEHAC/AMEMBASSY ASUNCION 0740
RUEHBO/AMEMBASSY BOGOTA 7160
RUEHBR/AMEMBASSY BRASILIA 5839
RUEHBU/AMEMBASSY BUENOS AIRES 1532
RUEHLP/AMEMBASSY LA PAZ 2426
RUEHPE/AMEMBASSY LIMA 0681
RUEHMN/AMEMBASSY MONTEVIDEO 0888
RUEHQT/AMEMBASSY QUITO 2516
RUEHSG/AMEMBASSY SANTIAGO 3843
RUEHAO/AMCONSUL CURACAO 1085
RUEHGL/AMCONSUL GUAYAQUIL 0728
RHEHNSC/NSC WASHDC
RUEHRC/DEPT OF AGRICULTURE USD FAS
RUCPDO/DEPT OF COMMERCE

UNCLAS SECTION 01 OF 03 CARACAS 003617

SIPDIS

SENSITIVE
SIPDIS

TREASURY FOR KLINGENSMITH AND NGRANT
COMMERCE FOR 4431/MAC/WH/MCAMERON
NSC FOR DTOMLINSON
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A

TAGS: [ECON](#) [SOCI](#) [VE](#)

SUBJECT: NO PLANES, SOME TRAINS AND MANY, MANY AUTOMOBILES

SUMMARY

¶1. (U) Caracas roads and highways are congested like never before, leading to massive gridlock and huge productivity losses. A result of insufficient infrastructure and over a 100 percent increase in car sales during the past two years, the plight of Caracas residents seems unlikely to be resolved in the near future. Government attempts to alleviate pressure by promoting mass transit have been unsuccessful due to insufficient passenger capacity. The average speed of a car traveling through Caracas is now reportedly 15 kilometers per hour. END SUMMARY.

Investment Vehicles

¶2. (U) Car sales have skyrocketed during the past two years, mirroring the economic and consumption boom occurring throughout the country. Sales increased 70 percent from 2004 to 2005 and are up 51 percent this year, as of the end of October 2006. The demand for cars is driven by the increasing amount of money in the street from economic growth and easy credit.

¶3. (U) Venezuela has seen an explosion in credit in the past few years as banks have tried to compensate for diminished margins in other business areas by expanding consumer credit. Rates for car loans range from 19 to 28 percent (the maximum rate allowed by government regulations), and inflation runs at 15 percent a year -- a very decent real return. Venezuelans see cars as investments and hedges against inflation: high demand means that cars do not lose value as quickly as in the United States. Moreover, putting cash into a car is safer than keeping it in the bank where it earns negative real interest rates and is subject to potential devaluation.

¶4. (U) In 2004, the BRV introduced the Venezuela Movil (Venemovil) program to assist Venezuelans in buying cars and to stimulate domestic production. The program sets fixed prices and interest rates for a handful of basic cars produced in Venezuela, including those produced by GM (Aveo and Spark) and Ford (Fiesta and KA). The purchase agreement requires a 30 percent down payment and then offers 3-4 year loan notes at 1.28 percent interest. Venemovil purchases now represent almost 24 percent of the car market in Venezuela.

¶5. (SBU) About half of the cars purchased in Venezuela are produced locally and the rest are imported. GM, Ford, DaimlerChrysler, Toyota and Mitsubishi have assembly plants in Venezuela. Domestic production through October of 2006 amounted to approximately 130,000 vehicles, a 17 percent increase year on year. (Note: The vehicles produced in Venezuela are assembled mostly from imported components. End Note.) Despite the production increases, demand still outstrips supply, and consumers have been known to wait anywhere from 2 to 10 months to purchase a new vehicle. Sales of luxury vehicles have grown even faster than overall sales: Audi sales have increased 278 percent year on year (albeit from a small base -- there is only one Audi dealer in Caracas). And since it can take up to a year to register a car and get license plates, an increasingly large numbers of plate-less cars are plying the roads.

¶6. (SBU) Chavez recently inaugurated the Iranian-Venezuelan joint venture Venirauto car factory. Though not expected to open its doors until 2008, its Iranian president recently claimed that it will capture 30 percent of the Venezuelan car market. All of the cars produced will be part of the

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Venemovil program and within five years they hope to produce cars with 92 percent domestic content. (Comment: Barring massive government intervention to subsidize the cars or prevent the sale of alternatives, these projections seem incredibly optimistic. End Comment.) The Chinese have also begun exporting cars to Venezuela and have high hopes for increasing their share of this lucrative market.

Gas Is Cheaper than Water

¶7. (SBU) Since 1998, the price of gasoline has not changed, while the price for the Venezuelan oil basket has increased from approximately USD 10 to USD 52. In 2004, the last date for which reliable statistics are available, PDVSA lost approximately USD 3.8 billion on gasoline subsidies. This loss does not factor in the opportunity cost lost by selling gasoline locally at USD 17 cents/gallon instead of through its CITGO subsidiary in the U.S. where the average price for a gallon of unleaded gasoline is now USD 2.29. (Comment: Essentially, nearly free gas is another powerful incentive to drive and torpedo any effort to encourage more efficient practices like carpooling, mass transit, etc. End Comment.)

Sardines in a Can

¶8. (U) In recent weeks leading up to the December 3 national elections, Chavez "inaugurated" subway systems in Valencia and Maracaibo as well as a commuter rail line in Caracas. Unfortunately, these systems have done little to alleviate traffic congestion. The Valencia metro is not completed and the Maracaibo metro is not even operational. Additions to the Caracas mass-transit system have caused as many problems as they intended to solve. By extending the system to the bedroom community of El Tuy, the transit system added between 100-150,000 riders daily. However, they did not add additional trains or cars, despite the fact that ridership was already above capacity. Econoff has heard from more than one Venezuelan that they have stopped taking the metro in

recent weeks and started driving due to the impossibility of negotiating the crowds of (unruly) passengers. (Note: Transit prices are fixed (the Caracas Metro now costs 23 cents) and the government shows no signs of allowing them to increase to a point where they would affect ridership. Chavez has also decreed that the new additions to the system will be free through the month of December. End Note.)

¶9. (U) Buses in Venezuela are privately owned and operated and reflect the whims of their drivers. Buses frequently will stop without warning to add or disembark passengers, causing additional congestion. Many buses in Caracas are antiquated and frequent breakdowns add to the bottlenecks.

These Streets Are Made for Walking

¶10. (U) There are approximately 500,000 "buhoneros," or street salesmen in Caracas. The stands they setup along the sidewalks throughout the city creep into the street itself. The gridlock has created new economic opportunities for the hordes of Venezuela's marginally employed, who walk through the streets (and even highways) selling everything from snack food to Chavez dolls to water pumps. Of course they also get in the way when the traffic starts to move.

¶11. (U) Unsurprisingly, there is also a parking shortage in Caracas. Parking fees are fixed, too, deterring potential investment in parking lots or garages and forcing an

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estimated 60 percent of cars in the city to park on the street. Street protests and demonstrations are common and unpredictable, adding to the melee, and motorists here treat traffic lights as mere suggestions. (Note: Econoff can count on one hand the number of stop and yield signs he has seen and recently spent thirty-five minutes in a four-way intersection in which everyone tried to move at once. End Note.)

No Roads for You

¶12. (U) While the missing bridge on the highway from the airport in La Guaira to Caracas is an often-told story, estimates by the Venezuelan Society of Civil Engineers (Sovinciv) are that USD 10 billion in repairs are urgently needed to shore up the rest of Venezuela's crumbling highway network. In 2006, the Ministry of Infrastructure planned to spend USD 117 million in road maintenance. A recent report by the daily newspaper, El Universal, clocked the average speed of a vehicle traveling through Caracas at 15 kilometers per hour.

¶13. (SBU) The Mayor's office in Chacao (a wealthy Caracas municipality run by an opposition Mayor) recently revealed to econoffs that they plan to spend 2007 focusing on crime and infrastructure. They noted the difficulty, however, of achieving much when they could not coordinate with other Caracas municipalities as relieving congestion in one area does nothing to free other bottlenecks. (Comment: It will be difficult for Chacao to accomplish much when three of the other four municipalities in Caracas are Chavista and the state and federal government have little interest in cooperating with an opposition mayor. End Comment.)

¶14. (U) During one of his last events before the election, Chavez held a roundtable press conference from Miraflores on November 30 where he was pressed on the infrastructure issue. He promoted the additions of subway lines and noted plans to build a new highway through the 8,500 foot Avila mountain that separates Caracas from the sea. He also claimed to have used helicopters to discover a new parcel of land of thousands of hectares for a bedroom community outside of

Caracas. (Comment: How they would build this new city remains to be seen, as the private and public sector combined have been woefully incapable of building housing in existing cities. End Comment.)

COMMENT

¶15. (SBU) Too many cars on too few -- and lousy -- roads coupled with the vagaries of Venezuelan drivers and distractions of street vendors has made driving in Caracas often miserable and a major production. Not only a headache, the traffic has a markedly negative affect on productivity. Embassy officers often spend as much time traveling to a meeting as in the meeting, if not longer. Delays in getting goods to factories, products to stores and people to work place strains on the economy, raises the cost doing business, and hurts Venezuelan firms. The housing shortage and cost of housing in Caracas has made it normal for middle-class Venezuelans to spend 3-4 hours commuting from the suburbs, which also places strains on family life. Little relief seems likely as government policies are putting more cars on the road and doing little to alleviate the burden.

BROWNFIELD